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CITY AND COUNTY OF SAN FRANCISCO

OFFICE OF THE CONTROLLER

MAYOR'S OFFICE OF COMMUNITY DEVELOPMENT: Career Resources Development Center, Inc., Mismanaged Government Funds

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Audit Number 01028
March 11, 2002

Edward Harrington
Controller

March 11, 2002 Audit Number 01028

Pamela David, Director
Mayor's Office of Community Development
25 Van Ness Avenue, Suite 700
San Francisco, CA 94102

Dear Ms. David:

The Controller's Audits Division presents its report on the investigation related to allegations about Career Resources Development Center, Inc. (center), a nonprofit corporation that receives federal funding administered by the Mayor's Office of Community Development (Community Development) of the City and County of San Francisco (City). The center provides job training and after-school enrichment programs to underprivileged residents of the City's Tenderloin District. The audit was performed at the request of your office, which had received allegations that the center's executive director was mismanaging the center's financial activities.

Our investigation substantiated that the executive director had mismanaged the center's government grants. Specifically, we found that the executive director forged the signature of the chairman of the center's board of directors on official documents, failed to have the center undergo required financial audits, and did not implement recommendations to improve the center's financial management practices from an independent audit completed in 1999.

On November 2, 2001, the chairman of the center's board of directors terminated the executive director we refer to in this report, citing falsification of documents as the reason for termination. The board of directors hired a new executive director on November 2, 2001. We did not interview the new executive director.

The response of the center is attached to this report. The Controller's Audits Division will be working with Community Development to follow up on the status of the recommendation made in the report.

Respectfully submitted,

Edward Harrington
Controller

SUMMARY

Audit Highlights...

Our audit of Career Resources Development Center, Inc., revealed the following:

- ☑ ***The center's executive director mismanaged the financial activities of the center.***
- ☑ ***The center needs to improve many of its financial and administrative practices.***

RESULTS IN BRIEF

We substantiated allegations that the executive director of Career Resources Development Center, Inc. (center) mismanaged funds that it received from the City and County of San Francisco (City). A nonprofit corporation, the center provides job training and after-school enrichment services to immigrant and disadvantaged individuals in San Francisco's Tenderloin District. At the request of the Mayor's Office of Community Development (Community Development), we investigated allegations by a whistle-blower that the center's executive director was mismanaging the center's financial activities.

Our investigation showed that some of the executive director's poor practices included the following:

- Forging on required reports the signature of the chairman of the center's board of directors.
- Authorizing and signing salary advance checks written to her when the center does not allow such advances for center staff.
- Neglecting to arrange an independent financial audit of the center's operations for fiscal years 1999-2000 and 2000-01.
- Failing to implement many of the recommendations for improving the center's financial practices that the center's independent auditor had made in its audit for fiscal year 1998-99.

We also found that the center needs to strengthen many of its financial and administrative practices. Some of the center's poor procedures and policies include the following:

- Late submission to the City of required financial reports for fiscal year 1998–99.

- Lack of reconciled general ledgers for fiscal years 1999–2000 and 2000–01.

- Absence of a federally accepted method for allocating shared and indirect costs.

- Incomplete personnel and payroll records.

- Insufficient documentation that the center actually provided the services reported for some clients.

Further, our audit disclosed that one agency discontinued funding the center because it identified poor management practices by the center's executive director.

INTRODUCTION

ALLEGATIONS

At the request of the Mayor's Office of Community Development (Community Development), we investigated allegations by a whistle-blower that Career Resources Development Center, Inc. (center), a nonprofit corporation, mismanaged government funds and that its executive director exhibited poor management practices that jeopardized the center's grants. The center receives federal funding administered by the City and County of San Francisco (City) to provide job training and after-school enrichment programs to underprivileged residents of the City's Tenderloin District.

According to the whistle-blower and Community Development, the center's executive director engaged in the following questionable activities:

- Falsifying on official documents the signature of the chairman of the center's board of directors.

- Receiving salary advances when the center does not allow such advances for its staff.

- Neglecting to arrange an independent financial audit of the center's operations. For this reason, the center is now unable to obtain funding from government grants.

The whistle-blower also indicates that the center is failing to address or meet the fiscal requirements of funding agencies. The center's noncompliance with grant requirements has led to loss of funding.

BACKGROUND

More than 30 years ago, Career Resources Development Center, Inc., was established in California as a nonprofit public benefit corporation to provide English-as-a-second-language classes to immigrant residents of San Francisco's Chinatown. The center has expanded its services and programs to offer job training, job

placement, citizenship classes, and after-school enrichment services to residents of San Francisco and Oakland.

The center receives funding from the City through a Community Development Block Grant and an Emergency Shelter Grant administered by Community Development. The City's Department of Children, Youth and Their Families also provides some funds to the center. The Private Industry Councils of San Francisco and Oakland allocates additional federal funds to the center.

SCOPE AND METHODOLOGY

The Mayor's Office of Community Development referred to the Controller's Audits Division the allegations that Career Resources Development Center, Inc., had mismanaged government funds.

To conduct our investigation, we interviewed staff at Community Development and at the center. We reviewed various financial and program records.

To perform a financial review of the center's operations, we examined the available financial records, including payroll records, check registers, and bank statements. The center did not have available its general ledger for fiscal year 1999–2000, nor was it able to provide details about transactions for fiscal year 2000–01.

Because we focused on the allegations about the center's financial operations, we did not review the center's delivery of program services. We also did not evaluate Community Development's efforts to monitor the fiscal and program operations of the center.

AUDIT RESULTS

Although they are inadequate and incomplete, the financial records for Career Resources Development Center, Inc. (Career Resources) allowed us to substantiate many of the allegations that the center's executive director has mismanaged government funds. We also found that the executive director has not complied with many of the requirements in the grants that the center receives through the Mayor's Office of Community Development (Community Development).

THE EXECUTIVE DIRECTOR MANAGED THE CENTER'S GRANTS POORLY

In many instances, the center's executive director demonstrated poor financial management practices. When completing documents required by Community Development, the executive director falsified the signature of the center's chairman of the board of directors. Although the center's employee manual prohibits salary advances, she took such advances anyway. Further, she failed to implement recommendations that appear in the independent auditor's report for fiscal year 1998–99.

The executive director forged the signature of the center's board chairman.

The executive director forged the signature of the center's board chairman on the following documents: the 1999–2000 contract between the center and Community Development, the memorandum of understanding for fiscal year 2001–02 between the center and the United Way, and at least two monthly invoices that the center submitted to Community Development. The board chairman verified that the signatures on these documents were not his. Not only are forged signatures illegal, but such falsifications on proposals and contracts could also invalidate the documents, rendering these documents nonbinding on the granting agency.

Moreover, on three occasions between July 2000 and August 2001, the executive director received salary advances. Although the board of directors approved two of the advances, the center's employee manual, which the board of director had also approved, states that no employee will receive a salary advance. The executive director, like the center's other employees, should comply with the employee manual's directives.

Not only did the executive director take advances on her salary, but she also issued to herself eight checks totaling $2,800 between July 1, 2000, and August 31, 2001, for travel expenses. The executive director did not provide travel expense receipts to support these reimbursements. According to the executive director, she did not need to provide receipts because she was allowed a monthly $200 travel allowance intended to help her pay for costs related to business travel. However, we found no documentation to support the executive director's claim that she was entitled to a travel allowance, and the executive director could not provide us with any such evidence, such as board minutes or her employment contract. When we asked the board of director's chairman if the board was aware of the executive director's travel allowance, he stated he was unaware and recalls no resolution authorizing her to a travel allowance.

The executive director did not implement past recommendations to improve the center's financial management practices.

In addition, the executive director appears to have ignored recommendations from the independent audit completed for fiscal year 1998–99. Of the 11 recommendations that appear in the report, 7 relate directly to the center's financial management practices that we investigated. However, the center still has not implemented these 7 recommendations. For example, the recommendations state that the center should maintain better record keeping; perform regular account reconciliations, particularly for cash and payroll; review and approve employee time sheets; segregate the duties over cash disbursements; and allocate costs appropriately. In addition, the auditors recommended that the center should request an audit for fiscal year 1997–98 and include in its budget the requirements for future audits. We believe that the executive director is responsible for ensuring that the center implements promptly auditors' recommendations to improve the center's operations.

THE CENTER DOES NOT MAINTAIN ADEQUATE FINANCIAL RECORDS FOR ITS OPERATIONS

One indication that the center is neither monitoring nor managing properly its government funds is that it has often been late in submitting financial reports to funding agencies. These reports ensure funding agencies that the center is using government funds appropriately. The center is required to submit annual audited financial statements to Community Development nine months after the center's fiscal year ends. However, the center did not submit until October 16, 2001, or more than 18 months late, its final corrected financial audit report for fiscal year 1998–99. The center

is also delinquent in submitting its audited financial report for fiscal year 1999–2000. As of October 31, 2001, the center had not submitted the required financial audit report that was due March 31, 2001.

The center is late in submitting to Community Development required financial audit reports.

The delay in submitting the audit report for fiscal year 1999-2000 has occurred because the center lacks a reconciled general ledger that its independent auditors need to conduct the financial audit. Recently, the center purchased new accounting software to bring its accounting data up-to-date, and the center has retained a certified public accountant as a consultant to enter all of the center's financial transactions into the new accounting system. On October 12, 2001, the center's staff accountant completed the income statement for fiscal year 2000–01. However, she has not reviewed and reconciled the income statement for the previous year, so the balance sheet accounts for both years have not yet been reconciled.

Furthermore, during our audit, the center could not print reports from its new accounting system that would give the transaction details necessary for us to perform certain tests that we normally conduct during our reviews of financial records.

The center risks loss of funding from Community Development unless it undergoes timely audits. According to the executive director, the center has had a high turnover rate for its finance staff, and staff changes have delayed accounting work and thus prevented the accounting firm from completing its independent audits of the center. Because of the center's lack of sufficient records for fiscal year 2001-02, Community Development suspended payments to the center in the first half of the fiscal year. However, because it recognizes that the center's current programs provide important services to the community, Community Development reinstated payments to the center in October 2000 and reimbursed the center to avoid disrupting programs in process.

THE CENTER EXERCISES POOR INTERNAL CONTROLS OVER ACCOUNTING AND RECORD KEEPING

The center will continue to expose itself to the risk of financial mismanagement unless it begins to follow the procedures outlined in its accounting manual that are designed to reduce errors and irregularities in the center's accounting for fund disbursements. For instance, the center requires two signatures on any check that it issues for more than $500. However, our review of canceled

checks revealed that when the center issued checks for more than $500, these checks carried only the signature of the executive director. Perhaps more significantly, our review showed that the executive director issued checks directly to herself despite the fact that the center requires the signature of someone other than the executive director on all checks that the center issues to the individual who holds this position.

THE CENTER'S PERSONNEL AND PAYROLL RECORDS ARE INCOMPLETE AND INACCURATE

We found further examples of financial mismanagement when we reviewed the center's personnel and payroll records. The center does not maintain complete and accurate personnel and payroll records; consequently, the center may have paid some employees incorrectly.

The center may have paid some employees incorrectly.

Community Development requires that each grant recipient adhere to the operations and procedures manual issued by Community Development. This manual specifies that the records maintained for each grant recipient's employee include details on wage rates, benefits, and changes in employment status. Additionally, each organization receiving grant funds must keep detailed time reports, which are signed by the employee and supervisor, that document employee work hours.

We examined personnel files for 30 employees from the center's San Francisco office and found that 13 files were missing at least one of the elements required by Community Development's manual. For example, personnel files for 7 employees did not list rates of pay. Therefore, we could not determine whether the center paid the employees their correct salaries.

When we attempted to verify whether the center paid its employees correctly, we compared the number of hours shown on time sheets to timesheet summaries prepared by the center's bookkeeper. The time-sheet summary totals all hours worked by each employee during a specific period, and the bookkeeper submits this summary to a payroll service that prepares the paychecks. According to the bookkeeper, if the hours identified on a time sheet do not match the employee's sign-in and sign-out times, she verifies the correct hours worked by discussing the discrepancies with the program managers or executive director. Because the center does not document these discrepancies, we could not determine whether the center's employees received correct paychecks.

The center should have documented any discrepancy in reported work hours by including on the time sheet, on the time-sheet summary, or in the employee's personnel file a written explanation of the decision related to that bookkeeping problem. Nevertheless, for 78 time sheets that we examined, the hours recorded on 61 of the time sheets do not match the hours recorded on the time summaries. Further, when we compared the hours listed on the time summaries to the hours for which the payroll service reported paying the employees, we found that in 63 instances the employees did not receive pay according to the number of hours indicated on the time summaries. We could not determine which set of records listed the correct work hours for the center's employees.

POOR MANAGEMENT PRACTICE CAUSED THE CENTER TO LOSE FEDERAL GRANTS

Because it had weak management practices, the center lost federal funding passed through the Private Industry Council of San Francisco, Inc (council). As the table below shows, federal funding decreased from more than $750,000 in fiscal year 1997–98 to $281,500 in fiscal year 2000–01. The center does not anticipate receiving any federal funding for fiscal year 2001–2002.

TABLE

Career Resources Development Center, Inc.
Budgeted Revenue from Selected Sources
Fiscal Years 1997–98 Through 2001–02

Funding Sources	1997–98	1998–99	1999–2000	2000–01	2001–02
U.S. Department of Labor (Through Private Industry Council)	$750,838	$613,249	$514,326	$281,500	$0
U.S. Department of Housing and Urban Development (Through Mayor's Office of Community Development)	277,842	277,842	242,842	142,842	125,000
State of California	58,608	75,000	200,000	389,500	327,100
Total	$1,087,288	$966,091	$957,168	$813,842	$452,100

In a memorandum dated February 18, 2000, the council indicated to the center's executive director the council's dissatisfaction with the center. In the memorandum, the council cited the center's continuing employee turnover, poor reporting, and lack of continuity in client recruitment as its causes for concern. In a letter

written to the center in August 2000, the council's president stated that the center was overpaid $3,920 for duplicate enrollment of 2 clients, and the center's noncompliance with its standard record retention policies is cited as the reason for the council's concern.

The council's vice president of operations stated that although the council did not terminate any active contracts with the center, the council denied subsequent requests for funding because it lacks confidence in the center's management.

In another instance, the center submitted a late proposal to Community Development, causing the city agency to reduce the grant funding by 10 percent of the original amount. According to the grant coordinator for Community Development, the center received $14,284 less than it might have received if its proposal had arrived on time.

THE CENTER DOES NOT MAINTAIN COMPLETE, UP-TO-DATE PROGRAM RECORDS FOR THE CLIENTS IT SERVES

The center lacks records to show it provided client services funded by Community Development.

In addition to mismanaging funds, the center is not properly administering its grants. The center is not fulfilling all requirements for recipients of city grants, including the requirement that it maintain complete files for the clients it serves. For example, Community Development funds Excel, a program that assists clients through job training, job placement, and job retention. We reviewed the files for 25 clients from the fiscal year 2000-01 Excel program and found that the center did not have files for 3 of the clients. Further, files for 12 of the clients lacked sufficient documentation to show that the center actually provided the services reported for these clients.

Community Development's operating manual for contractors requires them to maintain verifiable records on clients and client services for at least four years following the completion of program activities. When we reviewed files covering the four-year time frame for the center's programs, we noted that the center has not retained files for the required four-year period.

THE CENTER DOES NOT USE AN ACCEPTABLE METHOD FOR ALLOCATING SHARED COSTS TO ITS CONTRACTS

In addition to neglecting its requirement to maintain complete, current client files, the center is not fulfilling Community Development's requirements for allocating the center's overhead or administrative costs, especially the costs for its executive director. For expenses that benefit more than one cost objective, recipients of funds from Community Development must comply with one of the federally accepted methods for allocating shared costs. Instead of allocating costs based on the relative benefits that each program receives, the center uses an unacceptable method for allocating costs; the center bases its distribution of shared costs among funding sources on budgeted percentages of expenses.

Using an unacceptable allocation method can result in Community Development disallowing some costs. In addition, current and future funding sources may choose to reject the center's applications for grants. The independent auditors who audited the center's financial statements for fiscal year 1998–99 identified this weakness.

RECOMMENDATIONS

To ensure that Career Resources Development Center, Inc., complies with all laws and regulations as well as its own policies and procedures, the center's board of directors should direct the newly hired executive director to follow these laws, regulations, and the center's policies and procedures.

To ensure that Career Resources Development Center maintains accurate and up-to-date financial records, the center should take the following actions:

- Complete any accounting adjustments for fiscal year 1999–2000 and complete any entries to the general ledger for fiscal year 2000–01. Once completed, the center should request its independent auditors to conduct the audits for fiscal years 1999–2000 and 2000–01. The center should then continue to maintain complete, accurate financial books and records to ensure timely reporting to its funding sources.

- Implement procedures described in the center's accounting manual to ensure effective internal controls, especially the procedures requiring two signatures on any checks issued greater than $500 and specifying that someone other than the executive director sign checks issued to the executive director.

- Maintain comprehensive, correct personnel and payroll records.

- Implement the recommendations from the independent audit for fiscal year 1998–99.

- Comply with all the requirements in its contracts with Community Development.

We conducted this review according to generally accepted government auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Staff: Renee Brescia
Deborah Gordon

Career Resources Development Center, Inc.

February 14, 2002

Ms. Renee Brescia
Associate Auditor
City and County of San Francisco
#1 Drive Carlton B. Goodlett Place, Room #388
San Francisco, California 94102-4694

Re: Draft Audit Report of Career Resources Development Center

Dear Ms. Bresicia:

First I would like to thank you and MOCD for making the board aware of the gross mismanagement of CRDC.

After your visit we accomplished the following items:

1. We terminated the Director of CRDC
2. We hire a new Director of CRDC
3. We completed accounting adjustments for fiscal year 1999-2000
4. We completed all entries to the general ledger 2000-01
5. We implemented all recommendation of the auditor for the year ended June 30 1999.
6. Presently the board pasted a resolution requiring any checks over $3,000 to have two signatures. A new resolution will be passed requiring any checks over $500 to have two signatures, but with two exceptions: The exceptions will be the Utility bill, telephone, and insurance.
7. All personnel and payroll records have been updated and is maintained properly.
8. All grant contracts are in proper order.
9. A Draft Audit was completed on Feb 15, 2002 for the years ending 00 & 01. A presentation is to be made to the Board of Director by the Auditor at the next Board meeting; which we are attempting to schedule for March 5, 2002.

Please include a copy of this letter with your final auditors report. Again, thank you, and we at CRDC look forward to a long-term and mutually profitable relationship with you and the City of San Francisco.

Sincerely,

Career Resource Development Center

Herman Weeks
Chairman of the Board

"To help others achieve is a reward within itself"
655 Geary Street, San Francisco, California 94102 Tele: 415-775-8880 Fax: 415-775-1748

cc: Mayor
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